

Volume No. 1 - Policies and Procedures	TOPIC NO. 50315
Function No. 50000 – Payroll Accounting	TOPIC EMPLOYEE TAX MAINTENANCE
Section No. 50300 — Establish/Maintain Employee Profile Information	DATE October 2004

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Overview

Introduction Employee tax records are initially created during the new hire process when W-4 and VA-4 information is entered on H0BNE. Once data entry on H0BNE is complete, the tax information is automatically stored on the following screens:

- H0BAD – Employee Automatic Taxing Information
- H0ATX – Employee State and Local Tax Status

This topic provides guidance on use of H0BAD and H0ATX to ensure pay is taxed properly and in accordance with federal and state law.

Withholding Allowances

Federal/State Tax Withholding

Withholding amounts are automatically calculated in CIPPS, based on the employee's Form W-4 and VA-4 information entered in CIPPS during the process of adding a new employee. Tax withholding, is based on the following:

- Taxable wages
- Tax withholding tables
- Pay frequency. The tax withholding amount depends on the frequency the employee is paid. Pay frequencies included in the tax withholding tables are annual, monthly, semimonthly, biweekly, weekly, and daily/miscellaneous.
- Marital status and personal allowances. The tax withholding amount is decreased by the annual credits allowed for the standard deduction and personal allowances. Employees indicate the standard deduction and/or personal allowances to which they are entitled on the W-4 and VA-4.

If the employee is eligible, the Earned Income Credit Advance Payment Certificate (Form W-5) should also be completed.

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Withholding Allowances, Continued

Federal and State Withholding, continued

Employee's Withholding Allowance Certificate (Form W-4) - tells the employer:

- Whether to withhold at the single or married rate
- How many withholding allowances are claimed
- Whether the employee wants any additional amount withheld
- Whether the employee is claiming exempt from withholding

Virginia Employee's Withholding Exemption Certificate (Form VA-4) - provides the same information as Form W-4, with the exception of marital status. Marital status must be the same for both federal and state withholding calculations.

New employees are required to complete both forms within the first pay period of work. If the employee does not furnish these forms timely, withholding information must be entered as if the employee is single with no allowances.

Earned Income Credit (Form W-5)

Certain employees may be eligible to receive the Earned Income Credit (EIC). The EIC provides a tax credit to workers whose income is below certain levels and who meet other eligibility requirements. Employees who satisfy income and eligibility requirements must complete the Earned Income Credit Advance Payment Certificate (Form W-5). Form W-5 expires on December 31 of each year. A new form must be filed each year in order to continue receiving the EIC. For information on the EIC, see IRS Publication 15, Circular E, Employer's Tax Guide.

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Withholding Allowances, Continued

Resident and Nonresident Aliens

The taxation and reporting requirements for income earned by foreign citizens (aliens) working in the U.S. depend on whether the employee is a resident or nonresident alien. Generally, resident aliens are taxed on their worldwide income, which means they are subject to federal and state income tax withholdings to the same extent as U.S. citizens. Nonresident aliens, however, are taxed only on their income from U.S. sources, with some exceptions. Nonresident aliens are subject to the same federal income tax withholding as resident aliens depending on the source income, visa status or income treaties between the United States and the resident country.

In either case, employees are required to provide the employer with a completed Form W-4. When completing a Form W-4, a nonresident alien must claim 'single' regardless of the marital status and claim only one withholding allowance. No additional withholding allowances are allowed unless an exception is outlined in a treaty agreement. If Form W-4 is not submitted the employee should be entered as 'single' and claiming no allowances.

For more details on resident and nonresident alien taxation see IRS Publication 519, US Tax Guide for aliens.

Daily Taxing

Daily taxing is an alternative tax withholding method that is used to tax certain employee wages earned over a prescribed period of time, when the employee has no other earnings for the year. Use of this tax method for any other purpose may result in taxes being under-withheld for both the employee and employer, resulting in possible penalties to the agency.

For more information on the use alternative tax methods, see IRS Publication 15 (Circular E) and 15a, (Circular E Supplement).

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Data Entry Procedures - Federal Tax Status

H0BAD

H0BAD is used to enter and maintain the information that controls automatic taxing of employee earnings. H0BAD data entry fields are routinely initially entered on H0BNE when establishing the new employee record, but are maintained on H0BAD.

Access H0BAD as instructed in CAPP Topic No. 50110, *CIPPS Navigation*.

FIT Marital Status Enter the filing status denoted on the Form W-4.

Value	Description
1	Single employee
2	Married employee
3	Head of household
4	Married filing separate

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Data Entry Procedures - Federal Tax Status, Continued

H0BAD, continued

FIT Exemptions Enter the number of exemptions denoted on the Form W-4, an amount to be withheld, or a percentage of federal taxable income to be withheld for federal income taxes, depending on the value in the FIT STATUS field.

If the FIT Status is...	Then...
4-8	Enter the number of exemptions claimed
3	Enter a whole dollar amount (e.g., enter 10.00 as 10).
2	Enter the percentage of federal income tax to be withheld to 3 decimal places (e.g., 19.3 % is 193).

FIT Extra AMT/% Enter the additional amount or percentage of FIT tax to withhold based on the Form W-4.

If the FIT Status is...	Then...
5	Enter the percent to be withheld to 3 decimal places (e.g., 19.3 % is 193).
6	Enter an additional amount as whole dollars.

FIT Status

If the W-4 indicates...	Enter a value of...	Description
FIT Exempt	1	Wages will accumulate as FIT-Non Taxable wages instead of FIT Taxable.
Percentage	2	Use the percentage provided in the FIT Exemptions field.
An amount to withhold	3	Withhold the amount provided in the FIT Exemptions field.
A number of exemptions claimed	4	Withhold FIT based on withholding tables, marital status, and the value entered in the FIT Exemption field.
An extra percentage to be withheld	5	Withhold FIT as 4 above with the additional percent of tax specified in the EXTRA AMT/% field.

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Data Entry Procedures - Federal Tax Status, Continued

H0BAD, continued

FIT Status

If the W-4 indicates...	Enter a value of...	Description
An extra amount to be withheld	6	Withhold the amount of tax calculated as 4 above and add an additional amount taken from the EXTRA AMT/% field. If the amount cannot be withheld in its entirety, no partial withholding will take place and it will not be recycled.
Employee EIC eligible	7	Withhold the amount of FIT calculated as 4 above and pay the employee an amount of earned income credit (EIC) based only on this employee filing a W5 certificates. See note.
Employee and spouse EIC eligible	8	Withhold the amount of FIT calculated as 4 above and pay the employee earned income credit (EIC) based on both the employee and the employee's spouse filing W-5 certificates. See note.
FIT Exempt – Wage not reported	A	Wages are taxable and will be accumulated in FIT-TAXABLE but no withholding will occur.

Note: EIC payments for codes 7 and 8 can cause the check stub to appear to be out-of-balance. This occurs because the net pay includes EIC and can be greater than the gross pay amount. This is a valid condition. CIPPS will continue to process normally for EIC requirements.

FICA Status (OASDI and HI)

This field controls the withholding of social security (FICA) tax.

Value	Description
1	Exempt from FICA (OASDI and HI) tax.
3	Agricultural employee- exempt from FICA tax until FICA taxable wages reach \$150.00
4	Calculate FICA tax (both OASDI and HI)
5	Calculate OASDI only
6	Calculate HI only

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Data Entry Procedures - Federal Tax Status, Continued

H0BAD, continued

FUTA Status Enter “1” - State governments are exempt from FUTA tax.

SUI Status **State Unemployment Insurance Status** - Enter the value indicating whether wages are taxable.

Value	Description
1	Exempt from tax.
4	Calculate tax.

Contact the Virginia Employment Commission for a listing of employees that are exempt. For example, agency heads and some students are exempt from SUI.

SUI State Code Enter the state the employee could collect unemployment compensation. Default value is the work state.

SD Locality **NOT USED AT THIS TIME.**

Tax Unit Enter 001 for the tax unit.

Work/Resident Country Enter 001 for USA, otherwise contact Payroll Production at DOA. Default value is 001.

Work/Resident State Enter 47 for Virginia. A list of state codes can be found in CAPP Topic No. 60201, *CIPPS Codes*.

Work/Resident Locality Enter Zeros for Virginia, otherwise call Payroll Production for assistance.

Second through Fifth State Code, Second through Fifth Local Code, Primary through Fifth Tax%, County Code Not used for processing.

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Data Entry Procedures – State and Local Tax

H0ATX

H0ATX is used to enter and maintain the employee's state and local tax status information. The following fields were initially entered on H0BNE but must be maintained on H0ATX.

Access H0ATX as instructed in CAPP Topic No. 50110, *CIPPS Navigation*.

Sna - EXTRA! Personal Client

File Edit View Tools Session Options Help

> GUH 230,1111111200 ON H0ATX

--EMPLOYEE STATE AND LOCAL TAX STATUS--

COMPANY--> 230 EMPLOYEE NUMBER--> 1111111200 COUNTRY CODE--> 001
TAX UNIT--> 001 STATE CODE--> 47 LOCAL CODE--> 0000
NAME> BARBARA B BAKER

STATE NO. EXEMPTION--> 0 STATE ADD. AMT/Z--> 0
LOCAL NO. EXEMPTION--> 0 LOCAL ADD. AMT/Z--> 0
STATE STATUS--> 4 D.I. STATUS--> 1
SIT MARITAL STATUS--> 1 LOCAL STATUS--> 1
SP. LOCAL STATUS--> 1 LOCAL NAME--> _____
SD LOCAL STATUS--> 1

09/09/04 15:55:17 1 M3LL CIDL

05/02

SNA Server: Connected T1 NUM 3:54 PM

Country Code Enter 001 for USA.

Tax Unit Enter 001 for the tax unit.

State Code Enter 47 for Virginia.

Local Code Enter 0000 for Virginia, otherwise call Payroll Production for assistance.

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Data Entry Procedures – State and Local Tax, Continued

H0ATX, continued

***State No.
Exemption***

Enter the number of exemptions denoted on Form VA-4, an amount or percentage of state income tax to be withheld.

If the State Status is...	Then...
4-8	Enter the number of exemptions claimed.
3	Enter a whole dollar amount (e.g., enter 10.00 as 10).
2	Enter the percentage of federal income tax to be withheld to 3 decimal places (e.g., 19.3% is 193).

***State ADD.
AMT/%***

Enter the additional amount or percentage of SIT tax to withhold based on Form VA-4. This field will only be used if a value of 5 or 6 is in the STATE STATUS field.

If the State Status is...	Then...
5	Enter the percent to be withheld to 3 decimal place (e.g., 19.3% is 193)
6	Enter the additional dollar amount to be withheld (i.e., \$10 = 10).

***Local No.
Exemption***

Enter either a percentage of local taxable wages, an amount, or the number of local exemptions to be used in the calculation of local income taxes based upon the value contained in the LOCAL STATUS field.

If the Local Status is...	Then
4-8	Enter the number of exemptions claimed
3	Enter a whole dollar amount (e.g. 10.00 would be entered as 10).
2	Enter the percentage of state income tax to be withheld to 3 decimal places (e.g., 19.3 percent 193).

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Data Entry Procedures – State and Local Tax, Continued

H0ATX, continued

**Local ADD.
AMT/%**

Enter either an additional local percent or amount.

If the Local Status is...	Then...
5	Enter extra percent to be withheld to a three decimal place percent (i.e., 3.2 percent is 032).
6	Enter the additional amount to be withheld in whole dollars.

State Status

Enter the method to be used in the calculation of state income tax (SIT) withholding.

If the withholding certificate indicates...	Enter a value of...	Description
SIT Exempt	1	Exempt from state taxes or the state does not have state income taxes.
Percentage	2	Withhold the percentage of SIT indicated in the SIT Exemption field
An amount to withhold	3	Withhold the amount of SIT indicated by the SIT Exemption field, plus the whole dollar amount in the STATE ADD. AMT/% field
A number of exemptions	4	Calculate the SIT using a state tax routine based on the SIT Exemption field
An extra percentage to be withheld	5	Calculate SIT as in 4 above and in addition add a percentage of state income tax provided in the STATE ADD. AMT/% field
An extra amount to withhold	6	Calculate SIT as in 4 above and in addition add the amount provided in the STATE ADD. AMT/% field
Multiple state tax withholding / report resident taxes	7	Calculate SIT for both the work and resident states. Subtract the work state tax from the resident state tax and place the remainder if positive, in the STATE TAX field on the resident tax record

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Data Entry Procedures – State and Local Tax, Continued

H0ATX, continued

State Status, continued

If the withholding certificate indicates...	Enter a value of...	Description
Multiple state tax withholding/report both work and resident taxes	8	Calculate SIT for both the work and resident states. Place the resident tax in the STATE TAX field of the resident tax record in addition to the taxes in the work tax record.
Multiple state SIT calculations	9	When the state is a work state, calculate SIT for the resident state. Place the resident tax and taxable income in the resident tax record in place of the tax in the work tax record. See Note.
No withholding/accumulate SIT tax	A	Wages are taxable and will be accumulated in SIT-TAXABLE but no withholding will occur.

Note: This value should also be used in the tax records which pertain to the employee's resident state (H0BAD) if the resident state requires tax regardless of where wages are earned (the work state will have a SIT STATUS of **7, 8, or 9**). This status will cause the employee to be taxed correctly if the employee works in multiple states.

DI Status

Not used in CIPPS processing.

SIT Marital Status

Enter the marital filing status denoted on Form VA-4.

Value	Description
1	Single
2	Married
3	Head of household
4	Married and filing separate tax returns
5	Married and filing jointly with both spouses having separate incomes. If a value is not entered, the system generated value may be incorrect.

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Data Entry Procedures – State and Local Tax, Continued

H0ATX, continued

Local Status

This field specifies tax status codes for local income tax. If the employee's primary work location is Virginia, enter 1. Acceptable values:

If the withholding certificate indicates...	Enter a value of...	Description
Exempt from local taxes	1	Exempt from local taxes, or this locality has no local tax.
Percentage	2	Withhold the percentage of local taxable income indicated in the LOCAL NO. EXEMPTION field.
An amount to be withheld	3	Withhold the amount of local income tax indicated by the LOCAL NO. EXEMPTION field
Number of exemptions claimed	4	Calculate local taxes based on the number of exemptions in the LOCAL NO. EXEMPTION field
An extra percentage to be withheld	5	Calculate local income taxes as in 4 above and add a percentage of local tax provided in the LOCAL ADD. AMT/%.
An additional amount to withhold	6	Calculate local income taxes as in 4 above and add the amount provided in the LOCAL ADD AMT/%.
Work and resident local taxes are to be withheld	7	Calculate local income tax for both the work and resident localities. Subtract the work local tax from the resident local tax and place the remainder, if positive, in the local tax field of the resident tax record in addition to the taxes in the work tax record.

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Data Entry Procedures – State and Local Tax, Continued

H0ATX, continued

Local Status, continued

If the withholding certificate indicates...	Enter a value of...	Description
Work and resident local taxes are to be withheld	8	Calculate local income tax for both the work and resident localities. Place the resident tax in the local tax field of the resident tax record in addition to the taxes in the work tax record. This code is only valid if the local code is a work location.
Resident local taxes are to be withheld	9	When the state is a work state, calculate local income tax for the resident locality. Place the resident tax and taxable income in the resident tax record instead of the work tax record. This value should also be used in tax records which pertain to the employee's resident locality if the resident locality requires taxing regardless of where wages are earned (the work local will have a local status of 7, 8, or 9). This status will cause the employee to be taxed correctly if the employee works in multiple states or local codes.

SP Local Status Specify a status code for use by localities that have multiple taxes so these taxes may be controlled individually.

Value	Description
1	Employee is exempt from Special Local Tax
4	Calculate and withhold Special Local Tax

Local Name Field displays when the local code is entered.

SD LOCAL STATUS

NOT USED AT THIS TIME.

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Reciprocal Taxes

Reciprocal Tax Agreements

Virginia currently has reciprocity agreements with District of Columbia, Kentucky, Maryland, Pennsylvania and West Virginia. In order for the reciprocity agreements with Maryland, West Virginia, and Pennsylvania to apply, the Virginia source income must be subject to taxation by the employee's state of residence. Agencies are encouraged to register, withhold, and report taxes for these states.

Recent guidance from the Department of Taxation indicates Virginia tax should be withheld if MD, WV, or PA tax is not withheld. The employee would still have the option of reduced Virginia withholdings by filing form VA-4b; "Virginia Employee's Withholding Income Tax Credit for Income Taxes Paid To Another State". Information, registration packages, and forms for reciprocal states may be accessed at the following web sites:

Maryland: www.comp.state.md.us/
West Virginia: www.state.wv.us/taxdiv/
Pennsylvania: www.revenue.state.pa.us/
Kentucky: www.state.ky.us/agencies/revenue/taxforms.htm
D.C. <http://cfo.dc.gov/otr/site/default.asp>. or Call Department of Finance & Revenue (202) 727-6130

Non-reciprocity States

Payments made to residents of non-reciprocity states, including neighboring states of Tennessee and North Carolina, are subject to Virginia taxation for services performed in Virginia. The employee may elect to have their VA withholding reduced (up to 100%) for taxes paid to another state by filing for VA-4b.

If agency employees reside and work in other states (such as external auditors operating outside VA) the employee's income is subject to taxation in accordance with the rules of the prevailing resident/work state. Virginia tax would not be withheld or reported in such special cases.

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Data Entry Procedures – Reciprocal Tax

Before You Begin

Agencies that do not have an existing tax deposit ID for the resident state must:

- Contact the tax department from that state to obtain an application for a tax deposit ID.
- Upon receipt of the application and information packet, read all the information and adhere to all reporting requirements for that state.
- Obtain a state tax withholding form and a locality withholding form (if applicable) from the employee.

Once all tax information for the reciprocal state and tax deposit ID have been established, reciprocal taxing for the employee can be established using the MENU/LINK functions or through individual screen access (H0ATX and H0BAD).

New Hire Process **H0BNE**

Reciprocal tax information can be entered on the New Employee Add screen (H0BNE) during the new hire process. Access H0BEN using routine CIPPS navigation and complete the work and resident line fields specified: Refer to CAPP Topic No. 50305, *New Employee Add*, for valid values.

SNA - EXTRA! Personal Client

File Edit View Tools Session Options Help

> GUH 230 ON H0BNE

-----NEW EMPLOYEE ADD-----

I COMPANY--> 00230 EMPLOYEE NUMBER--> 999999999 X

EMPLOYEE NAME FIRST/MIDDLE--> _____

EMPLOYEE NAME LAST -----> _____

PO BOX/APT/SUITE--> _____

STREET ADDRESS-----> _____

CITY STATE ZIP-----> _____

SOCIAL SECURITY--> 000-00-0000 EMPLOYMENT DATE--> 00/00/0000

BIRTH DATE-----> 00/00/0000 SALARY OR RATE-----> 0

TIME CARD STATUS--> 1 PAY TYPE--> 2 PAY FREQUENCY-----> 70

STAND HRS 1 AND 2--> 78.67 999.99 START PAY DATE-----> 05/01/1993

FIT M NO EXTRA -----STATUS----- SUI TAX SD

STATUS EXEMP AMT/% FIT FICA FUTA SUI ST UNIT LOC ORG CODE

1 0000000 0 4 4 1 4 47 001 0000 12312312312

CTRY ST LOC MAR SIT SIT SIT LOC LOC LOC DI SP LOC

CD CD CD ST ST EXEMP AMT% ST EXEMP AMT% ST LOC NAME

WORK> 001 47 0000 1 4 0 0 1 0 0 1 1

RES-> 00 0000 0 0 0 0 0 0 0 0 0 0

6050H-DONT FORGET TO CHANGE KEY 6059H-NEW EMPLOYEE TO BE ADDED

6180I-ZIP CODE PRINTS AS ENTERED 09/09/84 15:59:43 1 H3LL CIDL

48 00.6 05/41

SNA Server: Connected T1 NUM 3:58 PM

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Internal Control

Internal Control

Agencies are responsible for ensuring that employees complete both federal and state withholding forms. Withhold the allowances claimed by the employee on Form W-4 and withholding any additional amount requested on the forms both federal and state withholding certificates. Agencies must ensure that all reciprocal tax agreement are honored and that taxes are withheld and reported for theses states.

Records Retention

Time Period

IRS documents and records should retain for at least 4 years. All other payroll documents and records should be retained for a period of 5 years or until audited whichever is later.

Contacts

DOA Contact

Manager, State Payroll Operations
Voice: (804) 225-2245
E-mail: Payroll@doa.virginia.gov

Payroll Business Analyst/Trainer
Voice: (804) 225-3120 or (804) 225-3079
E-mail: Payroll@doa.virginia.gov

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Subject Cross References

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 CAPP Topic No. 50115, *Menu/Link*
 CAPP Topic No. 50305, *New Employee Add*
 CAPP Topic No. 60201, *CIPPS Codes*
